4

Other Manufactures

Trade in manufactures besides textiles and clothing, a category we call "other manufactures," forms an integral part of the US-Pakistan commercial relationship.[1] More than 80 percent of US exports to Pakistan fall in the other manufactures product category. Pakistan, however, does not export large amounts of other manufactures to the United States.

Despite serious efforts at liberalization, Pakistan still applies high tariffs on manufactured imports. Over the past decade, US exporters have conducted business in Pakistan in a setting with high political risk. While the business environment has improved in recent years, it is possible that US exporters of manufactured goods could find themselves at a disadvantage if Pakistan enters into FTAs with other partners. A US-Pakistan FTA would eliminate Pakistan's remaining tariffs and ensure an equal footing for US firms.

With a few exceptions, notably leather-based items and sporting goods, Pakistan's other manufactures are highly oriented toward the domestic market. US tariffs on other manufactures are mostly low, and some Pakistani firms already enjoy duty-free access to the US market through generalized system of preferences (GSP) or most favored nation (MFN) rates. Pakistan's commercial interest in an FTA will center on securing

1. We use the category of "other manufactures" throughout this chapter to refer to products included in HS chapters 25 through 97, excluding HS chapters 50 to 63. Thus the category includes traditional manufactures (e.g., chemicals, plastics, articles of metals, machinery, vehicles, instruments, etc.) and excludes textiles and clothing (discussed in chapter 3); food, beverages, and tobacco manufactures (discussed in chapter 2); and petroleum, gold, and silver.

permanent duty-free access and eliminating remaining US barriers. Equally important, a US-Pakistan FTA could encourage investment in Pakistan's manufacturing sector. However, a US-Pakistan FTA will require considerable adjustment in Pakistan's "other manufacturing" sector: The initial impact of a bilateral pact will be smaller production, as Pakistani firms close down high-cost, low-quality lines. Only as efficient techniques are adopted and new products are manufactured will output and employment increase.

This chapter is structured in two sections. The first section reviews production and trade patterns. The second section identifies barriers and issues that should be addressed in the negotiation. We conclude with recommendations for the US-Pakistan FTA negotiations.

Manufacturing Production and Bilateral Trade

After Pakistan's independence was established in 1947, the country's manufacturing sector occupied the central role in national development—it was considered the main engine of the economy and was expected to provide the primary avenue of new employment. However, despite years of targeted promotion policies, Pakistan's total industrial sector remains a relatively small part of the economy (only 18 percent of GDP in 2005).[2] Comparisons with other South and East Asian countries indicate that manufacturing GDP in Pakistan is not only small but also heavily concentrated in textiles and clothing, foods, beverages, and tobacco.[3]

Other manufactures account for roughly 8 percent of Pakistan's total GDP (and less than half of the country's total manufacturing GDP) and employ about 2 million workers (almost 35 percent of manufacturing employment, as shown in table 4.1).[4] The principal subsectors, in terms of both output and employment, are chemicals and basic metals (iron and steel) and their products (table 4.1). Examples of domestic industrial products include: caustic soda and soda ash; nitrogenous and phosphatic

2. Agriculture accounts for 23 percent of GDP, while the share of services is just below 60 percent.

3. According to UNIDO (2005), the share of the manufacturing sector in the GDP of all South and East Asian countries was roughly 33 percent, well above Pakistan's 18 percent. The same share for all developing countries averaged 23 percent, so Pakistan is even below the developing country average. The share of textiles and clothing and foods, beverages, and tobacco in the manufacturing sector in South and East Asian countries was roughly 9 and 13 percent respectively (UNIDO 2005). Table 4.1 shows that the shares of those sectors in Pakistan's manufacturing GDP are 29 and 22 percent respectively. Other sources present higher estimates for the share of textiles and clothing in Pakistan's manufacturing GDP.

4. These figures are rough estimates. The method of estimation is explained in the notes to table 4.1.

Table 4.1 Pakistan's manufacturing sector (millions of US dollars)

HS category	Value added, 2003–04[a]	As percent of total manufacturing value added, 2001	Thousands of workers, 2004[b]	Total exports, 2004[c]	Total imports, 2004[c]	Net exports, 2004	FDI inflows, 2002–05[d]	
							United States	Total
Foods, beverages, and tobacco	3,417	22	739	278	916	–638	15	40
Textiles and clothing[e]	4,490	29	3,170	8,790	518	8,273	47	101
Petroleum and fuels	867	6	22	362	3,903	–3,541	342	682
Total other manufactures	6,807	43	1,899	2,462	10,663	–8,201	69	344
Leather and leather products[f]	224	1	135	818	57	761	4	11
Paper, pulp, printing	316	2	123	16	283	–267	0	3
Chemicals and their products	2,505	16	440	162	2,708	–2,546	36	215
Plastic, rubber, and their products	189	1	79	173	932	–759	0	0
Nonmetallic mineral products[g]	884	6	169	43	125	–82	13	19
Basic metals and their products	1,097	7	306	128	1,168	–1,041	2	8
Machinery, electrical equipment, and precision instruments	844	5	322	311	3,522	–3,211	12	51
Transport equipment	531	3	173	378	1,547	–1,169	2	37
Sports goods	136	1	97	267	6	261	n.a.	n.a.
Remaining other manufactures	82	1	57	165	314	–150	n.a.	n.a.
All manufactures	15,681	100	5,830	11,893	15,994	–4,101	473	1,167

HS = Harmonized Schedule; n.a. = not available

a. Estimates based on aggregate data on manufacturing GDP reported by the *Pakistan Economic Survey 2004–05* and the sectoral shares of manufacturing GDP reported by the *Census of Manufacturing Industries 2000–01*.

b. Estimates based on aggregate data on manufacturing employment reported by the *Pakistan Economic Survey 2004–05,* and the sectoral shares of manufacturing employment reported by the *Census of Manufacturing Industries 2000–01*.

c. Values estimated based on UN Comtrade data at 6 digits in HS 2002 classification.

d. Accumulated inflow estimates based on reports of the Pakistan Board of Investment for the years 2002–03 through the first trimester of 2005–06.

e. Excludes silk, wool, and cotton in raw state. Trade data for this category include man-made fibers.

f. Includes leather-based footwear.

g. Excludes gold trade flows.

Sources: Pakistan Board of Investment (2005a); Pakistan Federal Census Bureau of Statistics (2005a); UNIDO (2005); UN Statistics Division (2005).

fertilizer; pharmaceuticals; soap and detergent; paints and varnishes; cement; motorcycles, vehicles, and parts;[5] paper and paperboard; agricultural and textile (sewing) machinery; electrical appliances (TV sets, fans, refrigerators, electric bulbs, and tubes); iron and steel products (razors; heating and cooking equipment); and leather products and sports goods.[6] Most of these products enjoy above average tariff protection.

New Realities

Pakistan's Poverty Reduction Strategy Paper highlights the fact that employment creation in the manufacturing sector is low in comparison to other sectors of the economy.[7] As a result, the industrial sector has ceased to be the centerpiece of the country's development strategy (Government of Pakistan 2003). The government's view for the industrial sector involves "pursuing technological transformation . . . to face the challenges of competitive environment" (Government of Pakistan 2003, 2–3). A transformed manufacturing sector could play a fundamental role in regaining lost ground with respect to emerging Asian economies.

As a sign of its commitment to market forces, the government is privatizing the remaining publicly owned industrial units. A large number of automotive, cement, chemical, and fertilizer plants were privatized between 1992 and 1996,[8] and in recent years the government put additional industrial plants on the market, including the Pakistan Steel Mills Corporation.[9]

Trade policy has reinforced the government's market-oriented agenda. Pakistan has pursued multitier trade liberalization that combines unilateral tariff reductions with active participation in bilateral and multilateral negotiations. Bilateral agreements with large partner countries are

5. Pakistan produces jeeps and cars, tractors, light commercial vehicles, and motorcycles. While motorcycles are the majority of vehicle units produced in Pakistan (45 percent), vehicles account for the largest contribution to value added. Pakistan also has a significant auto parts industry, with some limited export orientation.

6. For a complete listing of manufactures produced in Pakistan, see the *Pakistan Census of Manufacturing Industries 2000–01,* available at www.statpak.gov.pk.

7. Manufacturing employment elasticity with respect to GDP dropped from an average of 1.1 during the 1970s to practically zero during the 1990s. Other sectors experienced a less pronounced decline, as indicated by the fact that the overall employment elasticity for the national economy fell from 0.64 to 0.41 during that period. On the bright side, these figures indicate a restructuring of Pakistan's manufacturing toward greater efficiency.

8. The privatization program also covered ghee mills, textile mills, and rice and roti plants, but the proceeds from these sales were modest.

9. The Pakistan Steel Mills Corporation supplies about 25 percent of Pakistan's total demand for steel. The government intends to sell 51 to 75 percent of the shares, together with management control.

expected to improve the competitiveness of Pakistan's manufacturing sector by providing access to cheaper inputs and machinery and by introducing more competition in markets for final consumer products.

With the exception of leather products and sports goods, Pakistan's production of other manufactures is now heavily oriented toward domestic demand. In fact, the net imports to GDP ratios are high in most sectors, particularly for durable goods (table 4.1). Other manufactures contribute to only just above 20 percent of Pakistan's total exports.

Pakistani Imports of Other Manufactures

Imports of other manufactures account for the majority of Pakistan's merchandise imports (59 percent). Chemicals and durable goods are the largest components.

In 2004, the top sources of other manufactured imports were (in order) the European Union, China, the United States, Japan, and ASEAN countries (table 4.2). Since 1996, China, ASEAN, South Korea, Taiwan, and Hong Kong have increased their shares of Pakistan's manufactured imports.[10] Increases show up in both durable and nondurable goods (table 4.2), with the competitive pressure greatest in low- and medium-technology products.[11] In response, some domestic producers (e.g., of footwear) are seeking the imposition of safeguards and antidumping measures. In 2001 the US Commercial Service identified Chinese firms (including foreign firms based in China) as direct competitors of US producers for several Pakistani industrial imports: plastics; industrial chemicals; oil and gas machinery and supplies; textile machinery; pumps, valves, and compressors; and general industrial and office equipment and supplies (US Commercial Service 2001).[12] Table 4.3 shows that in 2004 Chinese firms were the leading suppliers of Pakistan's imports of many of these products, and surpassed US firms in all product categories except power generating machineries and aircraft (other transport equipment in table 4.3), fertilizers, and scientific equipment. Table 4.3 also

10. Saudi Arabia, United Arab Emirates, and Kuwait also increased their share of Pakistan's total imports, but petroleum accounted for nearly all of their exports.

11. As a very rough indicator, the unit values (values divided by units of machinery) for most items of machinery and equipment listed in table 4.3 tend to be lower for imports from China and ASEAN countries than for Japan, the United States, and the European Union.

12. The same source identified ASEAN firms, particularly Singaporean firms, as strong competitors for computers and oil and gas machinery. That source also identified Japan and the European Union as distinct competitors on certain telecom equipment, pharmaceuticals, agricultural chemicals, pollution control equipment, aircraft and other transportation equipment, and food processing and packaging equipment.

Table 4.2 Pakistan's imports of other manufactures, by top partners (millions of US dollars)

Partner	Nondurables[a]		Durables[b]		Total		Percent growth of other manufactures imports
	1996	2004	1996	2004	1996	2004	
China and Hong Kong	188	447	362	950	550	1,397	154
Share of total other manufactures	0.08	0.13	0.08	0.15	0.08	0.14	
ASEAN	176	445	169	379	344	825	139
Share of total other manufactures	0.08	0.13	0.04	0.06	0.05	0.08	
Korea and Taiwan	213	232	191	318	404	550	36
Share of total other manufactures	0.09	0.07	0.04	0.05	0.06	0.06	
Japan	137	97	1,048	1,029	1,185	1,126	–5
Share of total other manufactures	0.06	0.03	0.24	0.16	0.18	0.11	
United States	317	296	493	891	810	1,187	47
Share of total other manufactures	0.14	0.09	0.11	0.14	0.12	0.12	
EU-15	752	605	1,531	1,323	2,283	1,929	–16
Share of total other manufactures	0.33	0.18	0.35	0.21	0.34	0.20	
Other	518	1,296	612	1,538	1,130	2,834	151
Share of total other manufactures	0.23	0.38	0.14	0.24	0.17	0.29	
Subtotal	2,300	3,419	4,406	6,428	6,706	9,846	47
Total other manufactures	2,568	3,670	4,547	6,686	7,115	10,357	46

ASEAN = Association of Southeast Asian Nations

a. Nondurables include chemicals (SITC section 5); leather, rubber, cork, and paper (SITC section 6, chapters 6.1–6.4); and plumbing and lighting fixtures, travel goods, footwear (SITC section 8, chapters 8.1, 8.3 and 8.5).
b. Durables include minerals, metals, and their products (SITC section 6, chapters 6.6–6.9); machinery and transport equipment (SITC section 7); furniture, scientific equipment, photographic apparatus, and miscellaneous manufactures (SITC section 8, chapters 8.2 and 8.7–8.9).

Note: Textiles and clothing; foods, beverages, and tobacco; fuels; and gold are not included in this table. Shares are estimated with respect to the subtotal. They exclude other manufactures in raw state such as pulp and waste paper, crude fertilizer, crude rubber, hides, raw cork, and metalliferous scrap.

Source: UN Statistics Division (2005).

Table 4.3 Pakistan's imports of other manufactures, by selected products and countries, 2004 (millions of US dollars)

Product	China[a]	Japan	United States	EU-15	East Asian tigers[b]	Total	Share of tabulated countries
Chemicals	312	68	251	463	201	3,640	0.36
Organic and inorganic	138	32	97	183	100	1,476	0.37
Fertilizers	24	1	100	21	0	356	0.41
Miscellaneous	95	7	31	81	31	340	0.72
Plastics and rubber	79	39	42	87	169	932	0.45
Glass and ceramics	67	2	1	15	5	111	0.80
Basic metals and their products	81	77	56	212	132	1,174	0.48
Machinery and equipment	698	944	823	1,095	349	5,061	0.77
Power-generating machines	27	20	70	143	9	314	0.86
Special industrial machinery	168	255	72	433	69	1,250	0.80
Metalworking machinery	7	19	5	13	6	56	0.90
General industrial machinery nes	129	58	70	162	63	631	0.76
Office machines	47	6	36	26	51	229	0.73
Telecommunication and sound equipment	136	13	89	122	62	575	0.73
Electrical machinery	77	23	24	69	27	274	0.80
Road vehicles	47	523	9	33	34	743	0.87
Other transport equipment	40	0	417	33	2	779	0.63
Scientific equipment nes	11	11	30	58	20	162	0.80
Photographic apparatus	8	16	2	5	5	47	0.79

nes = not elsewhere specified

a. Does not include imports from Hong Kong.
b. Hong Kong, South Korea, Singapore, and Taiwan.

Source: UN Statistics Division (2005).

shows a strong supplying role for the East Asian tigers (Hong Kong, South Korea, Singapore, and Taiwan).

Despite a 47 percent increase in Pakistan's imports of foreign other manufactures between 1996 and 2004, imports from Japan and the European Union declined during that period (table 4.2). The US share of Pakistan's imports of other manufactures has remained stable at around 9 percent of total imports. In part, this reflects the fact that the United States is well positioned in high-tech products, chiefly aircraft. However, table 4.4 shows large swings in US exports over the past decade. Political decisions, notably the US imposition of sanctions on Pakistan and India, affected US exports to Pakistan in 1998. In 2004 US exports bounced back, surpassing their 1996 level, with a particularly strong performance by durable exports.[13]

The dynamic exports are fertilizers (HS 3100), electric generating sets (HS 8502), transmission apparatus for telephony and broadcasting (HS 8525), and medical instruments (HS 9018 and 9027). US exports to Pakistan of nearly all these products have at least doubled since 1996; moreover, export growth continued strong in 2005. But while certain US exports show impressive sustained growth, others have stagnated over the past decade (1996–2004). For example, exports of most organic chemicals (HS 29) and machinery (HS 84) remain below their 1996 levels. The early harvest agreement between China and Pakistan will increase Chinese pressure in these declining products.

Recent US FDI flows to Pakistan's other manufactures sector have been small (table 4.1). Figures for 2005 also show a sharp drop in US exports of aircraft.[14] In fact, similar to Japanese and EU exports, US exports of other manufactures will drop below their 1996 export level.

Pakistan's Exports of Other Manufactures

Pakistan's exports of other manufactures to the United States are small, about $220 million total (table 4.4), or 7 percent of Pakistan's exports to the US market. Moreover, Pakistani exports of other manufactures to the United States have declined in recent years. The principal products exported, listed according to their 2004 trade values, are leather, medical devices, sports goods (inflatable balls), cutlery, and jewelry (table 4.5). Most of these products enjoy duty-free access (through GSP or MFN rates); however, US tariffs may be an obstacle for Pakistani leather and footwear exporters. Pakistan is the fourth largest supplier of US imports

13. Data for 2001–03 and 2005 indicate that 2004 was in fact an exceptional year for US manufactured exports to Pakistan.

14. However, in years to come Pakistan's aircraft purchases could increase if the country completes the planned opening of the airline industry.

Table 4.4 Other manufactures trade between the United States and Pakistan (millions of US dollars)

	1996	2000	2004	2005[a]
Other manufactures				
US exports to Pakistan	925	401	1,373	890
US imports from Pakistan	177	256	215	220
US trade balance	748	145	1,158	670
Total trade				
US exports to Pakistan	1,277	462	1,811	1,159
US imports from Pakistan	1,266	2,167	2,874	3,202
US trade balance	11	–1,705	–1,063	–2,042
Share of other manufactures (percent)				
In total bilateral trade	43	25	34	25
In US exports to Pakistan	72	87	76	77
In US imports from Pakistan	14	12	7	7

a. Preliminary figures: annualized January–October data.

Note: Table excludes textiles and clothing products; food, tobacco, and beverages; petroleum and fuels; and gold. Values may differ from those reported in other tables as this table reports US export data (f.o.b), while other tables report Pakistan's import data (c.i.f). Moreover, Pakistan records statistics on budget-year basis (July–June) rather than the calendar year as the USITC does. Another reason for the difference is that Pakistan does not include military goods (e.g., aircraft) in its trade statistics.

Source: USITC (2005).

of leather clothing (gloves and jackets), but imports from Pakistan account for only 4 percent of US imports, while China supplies almost 70 percent.

Many of the leading Pakistani exports of other manufactures to the US market have declined since 2000 (table 4.6). While Pakistan's export performance for the same items in the European market has been slightly better, the 2004 export values remain below the 1996 levels (table 4.6). Indeed, table 4.6 shows that the combined share of the US and EU markets in Pakistan's exports of other manufactures dropped from 71 percent to 56 percent between 1996 and 2004. In contrast, Pakistan's exports of other manufactures to other markets have increased rapidly, indicating that the best export prospects for Pakistan's manufacturing sector probably lie outside the US and EU markets.

The Export Promotion Bureau of Pakistan considers leather products, sports goods, and surgical instruments core export products; and some of them, chiefly leather-based goods, receive export incentives. Chemicals, certain "engineering goods," and jewelry are also considered products where Pakistan "currently enjoys, or can achieve, a strong competitive edge" (Export Promotion Bureau of Pakistan 2005b).

Table 4.5 Pakistan's exports of other manufactures to the United States and to the world, 2004 (millions of US dollars)

Product description	United States		World	Share of US market in Pakistan's exports to the world
	Total[a]	Under GSP		
Hides, leathers, and furskins (HS section VIII)	93	4	783	0.12
Articles of leather; saddlery and harness, travel equipment (ch. 42)	90	2	497	0.18
Other hides, leathers, and furskins (ch. 41 and 43)	3	2	286	0.01
Construction and precious stones; glass (HS sections XIII-XIV)	29	24	72	0.40
Articles of stone, plaster, cement, or similar materials (ch. 68)	12	9	22	0.54
Pearls, precious or semiprecious stones (ch. 71)	17	15	29	0.58
Other stones or glass (ch. 69–70)	0	0	21	0.02
Base metals and articles thereof (HS section XV)	27	18	128	0.21
Tools, cutlery, silverware, of base metal (ch. 82)	22	16	44	0.51
Other metals or articles thereof (ch. 72–81; 83)	5	2	84	0.05
All remaining other manufactures	96	12	1,842	0.05
Medical devices (ch. 90)	34	0	163	0.21
Sports goods (ch. 95)	25	1	268	0.09
Remaining other manufactures	37	11	1,410	0.03
Total	245[b]	59	2,825	0.09

GSP = generalized system of preferences
HS = Harmonized Schedule

a. Includes exports under preferential (GSP) and nonpreferential access programs.
b. The value is different from the one reported in table 4.4. The difference is explained in the notes to that table.

Note: Excludes textile and clothing products; food, tobacco, and beverages; petroleum and fuels; and gold.

Sources: UN Statistics Division (2005); USITC (2005).

Table 4.6 Pakistan's leading exports of other manufactures, 1996–2004
(millions of US dollars)

Category	1996	2000	2004	Percent change 1996–2000	Percent change 2000–2004
United States	183	215	180	17	–16
Cutlery (SITC 696)	10	16	12		
Leather (SITC 611, 612, and 8481)[a]	59	86	82		
Leather footwear (SITC 8514)	0	0	1		
Medical instruments (SITC 872)	59	46	44		
Sporting goods (SITC 8947)	56	67	40		
European Union	597	485	559	–19	15
Cutlery (SITC 696)	5	5	7		
Leather (SITC 611, 612, and 8481)[a]	371	312	315		
Leather footwear (SITC 8514)	1	1	27		
Medical instruments (SITC 872)	49	44	60		
Sporting goods (SITC 8947)	172	124	150		
World	1,093	1,050	1,312	–4	25
Cutlery (SITC 696)	20	27	31		
Leather (SITC 611, 612, and 8481)[a]	641	614			
Leather footwear (SITC 8514)	3	2	81		
Medical instruments (SITC 872)	138	125	157		
Sporting goods (SITC 8947)	291	282	315		
US and EU share of Pakistan's total exports	0.71	0.67	0.56		

SITC = Standard International Trade Classification

a. These values are lower than those reported in table 4.1, which are based on the Harmonized Schedule classification.

Source: UN Statistics Division (2005).

Impact of a US-Pakistan FTA: The CGE Model

The computable general equilibrium (CGE) model predicts large gains for US exports of other manufactures, roughly a 170 percent increase.[15] While exports of all product categories are expected to at least double, the most significant absolute gains will accrue to sales of chemicals and

15. The gravity model predicts a 75 percent increase in bilateral trade in manufactured products. Unlike the CGE model, however, it does not provide insights as to the composition or direction of these gains. We discuss the full results of both models in chapter 8.

machinery and equipment (other than transport and electronic equipment). US gains in other transport equipment (not including motor vehicles) and electronic machinery could also be important. Additional product categories may expand rapidly, but starting from very low levels. Some caveats are in order, however: These projections could be overstated, and the model ignores preferences that Pakistan could grant to other competitors (China, India, or ASEAN countries) that would cut into the calculated US export gains.

According to the CGE model, with an FTA, Pakistan's exports of other manufactures to the United States and to the rest of the world will both decline about 25 percent. Specifically, the model predicts lower production of leather items (a 25 percent decrease), miscellaneous manufactures such as medical instruments (which will decline by almost 10 percent), and chemical production (which will contract by about 7 percent). We are skeptical of these results for two reasons. In the first place, the underlying CGE assumption that labor and capital resources are fixed in total quantity may give too little credit to the ability of firms to mobilize underutilized workers and idle plants. In the second place, large efficiency gains should enable firms to produce more with the same inputs. On balance, it seems implausible that Pakistan's exporters of manufactured goods will surrender foreign markets in the wake of an FTA with the United States. More likely they will adapt and expand.

The CGE model generates mixed results with respect to the impact of the FTA on customs revenue. According to the model, Pakistan could experience a decline of about $152 million annually. Of this amount $84 million is a direct loss, resulting from lower tariffs on imports from the United States; the remaining $68 is an indirect loss, reflecting import diversion from third sources (in both cases, mainly imports of other manufactures).[16] The calculated loss represents about 2 percent of Pakistan's total tax revenues. However, the CGE model predicts that, over the long term, the positive income effect of an FTA will increase Pakistan's imports from all sources, not just the United States, and the increased imports could mitigate the loss of revenue from lower tariff rates. Moreover, a US-Pakistan FTA will not lead to elimination of tariffs overnight, so the government of Pakistan will have time to balance its fiscal books by closing loopholes or raising other taxes.

16. In 2004 US exports of other manufactures contributed between $63 million and $84 million to Pakistan's treasury—in other words, most of the direct loss of revenue projected by the CGE model. The upper bound estimate (for 2004) assumes the simple average tariff on other manufactures in the Pakistan schedule (13.2 percent) and no SRO exceptions for 33 percent of US exports. The lower bound estimate assumes instead the trade-weighted average on US exports to Pakistan reported in table 4.7 (8.2 percent).

Tariffs and Other Barriers

Pakistan

Like many developing countries, in the late 1980s Pakistan started on a path of unilateral trade liberalization. But despite increased liberalization, Pakistan's domestic industry is still highly protected. Protectionist interests, however, are not the only reason for Pakistan's high duties on imports of other manufactures; revenue considerations also play a role. The Pakistani tariff system has a clear proindustrial bias: Higher rates are applied on luxury and nonessential items while raw materials and industrial plants and machinery imports pay lower rates (Burki and Akbar 2005). Pakistan applies no quantitative restrictions.[17]

While tariffs are the principal instrument of trade policy in Pakistan, other instruments are also used. The number and restrictiveness of nontariff barriers have decreased significantly over the past decade (Burki and Akbar 2005), but Pakistan still maintains noteworthy obstacles such as charges and taxes, licensing and procedural requirements, and import bans. The United States has not officially questioned Pakistan's import requirements and procedures in the WTO Committee on Import Licensing, but past negotiating experience demonstrates that these issues will be prominent in the US agenda.

Tariffs

The simple average applied tariff for all manufactured products, which surpassed 100 percent in the 1980s, declined to 21 percent in 2001(WTO 2002a). Estimates based on the Pakistan Customs Tariff 2005–06 indicate a further reduction to about 14 percent in 2005.[18] The average tariff on other manufactures in 2005 was just above 13 percent. But US exports of other manufactures, because of their sectoral composition, pay significantly lower tariffs than suggested by these figures: In 2004 the trade-weighted average applied tariff for Pakistan's imports of other manufactures from the United States was about 8 percent (tables 4.7 and 4.8).[19]

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17. According to the *Pakistan Economic Survey 2004–05,* there are exceptions for phasing out chlorofluorocarbon gases (CFCs) and a few WTO-compatible tariff quotas allowed to member countries of the South Asian Association for Regional Cooperation (SAARC).

18. While Pakistan's average MFN tariffs have declined below South Asian averages, they are still higher than the average tariffs of most emerging markets in East Asia, Latin America, and Eastern Europe, particularly for manufactured products.

19. This figure is based on customs rates listed in the Pakistan Customs Tariff 2005–06. If exemptions are considered, the simple average paid by the top 30 exports is even lower: 3.6 percent.

Table 4.7 Pakistan's top 30 imports of other manufactures from the United States, 2004 (millions of US dollars and approximate applied tariff)

HS 6-digit category	Product description	Import value	Share	Applied tariff (percent)	Tariff exempt?
8802.40	Airplanes and other aircraft of an unladen weight under 15tn	364	0.30	5.0	Yes[a]
3105.30	Diammonium hydrogenortho-phosphate	67	0.05	5.0	No
8803.30	Other parts of airplanes/helicopters	50	0.04	5.0	Yes[b]
8525.10	Transmission apparatus for telephony and broadcasting	45	0.04	10.0	No
8502.13	Electric generating sets	32	0.03	13.3	No
2902.43	p-Xylene	32	0.03	5.0	Yes[c]
8525.20	Transmission apparatus for telephony and broadcasting	20	0.02	6.3	Yes[d]
3105.90	Mineral and chemical fertilizers with nitrogen	19	0.02	5.0	No
2926.10	Acrylonitrile	15	0.01	5.0	Yes[d]
3808.10	Insecticides (mosquito coils, mats, and the like)	14	0.01	25.0	No
8411.99	Parts of other gas turbines of 8411.81 & 8411.82	13	0.01	5.0	No
8414.80	Air pumps, air and other gas compressors and fans	11	0.01	20.0	No
8419.89	Machinery, plant, and laboratory equipment	11	0.01	25.0	No
8471.30	Portable digital automatic data processing machines	10	0.01	5.0	Yes[d]
3104.30	Potassium sulphate	10	0.01	5.0	No
8471.60	Input/output units of automatic data processing machines	9	0.01	8.6	Yes[e]
7210.49	Flat-rolled products of iron nonalloy steel	9	0.01	17.5	Yes[d]
3907.20	Polyethers other than polyacetals, in primary forms	9	0.01	5.0	No
8411.91	Parts of the turbojets and turbopropellers	7	0.01	5.0	No

(table continues next page)

The trade-weighted tariff averages and estimates of actual duties paid on current imports both understate the level of distortion induced by Pakistan's tariff policy. Calculations of average tariffs do not entirely reflect the effect of prohibitive peaks, tariff escalation, and targeted duty exemptions. Additionally, Pakistan continues to avoid commitments for the

Table 4.7 *(continued)*

HS 6-digit category	Product description	Import value	Share	Applied tariff (percent)	Tariff exempt?
8431.43	Parts suitable for machinery of 8430.41	7	0.01	5.0	No
8517.50	Apparatus for carrier-current line or digital line systems	7	0.01	25.0	No
3902.10	Polypropylene, in primary forms	7	0.01	5.0	No
8529.90	Parts suitable for appliances of 85.25-85.28	7	0.01	12.5	Yes[f]
9018.90	Instruments used in medical, surgical, and veterinary sciences	6	0.01	5.0	Yes[g]
3905.30	Polyvinyl alcohol	6	0.01	5.0	No
8446.30	Weaving machines (looms)	6	0.00	5.0	No
8517.90	Parts of the appliances and equipment of 85.17	6	0.00	10.0	No
8451.80	Machinery for washing, cleaning, wringing, and finishing textiles	6	0.00	5.0	No
8473.30	Parts and accessories	6	0.00	5.0	No
4703.21	Chemical wood pulp, soda, and sulphate	6	0.00	5.0	No
2941.50	Erythromycin and its derivates and salts thereof	6	0.00	10.0	No
	Subtotal	818	0.67	6.7[h]	3.5[i]
	Total	1223	1.00	8.2[j]	

a. Duty-free according to SRO 567. Exemption valid only if imported by commercial airline.
b. Exempted by budget 2005–06.
c. Duty-free according to SRO 567. Valid if imported by Pakistan PTA Limited for the manufacture of pure terephthalic acid (PTA).
d. Duty-free according to SRO 567.
e. 10 percent duty according to SRO 565.
f. 5 or 10 percent according to SRO 565.
g. Duty-free according to SRO 575.
h. Trade-weigted average based on duty listed in this column.
i. Trade-weighted average incorporating exemptions or duty reductions.
j. Trade-weighted average based on Pakistan's imports from the United States exceeding $1 million in 2004 (or 87 percent of total).

Sources: Pakistan Customs Revenue Board (2005b, 2005c, 2005d); UN Statistics Division (2005).

binding of tariffs. About 50 percent of tariff lines (some 2,730 lines) for manufactured products are not bound (WTO 2005e). Moreover, while Pakistan has bound the covered manufactures tariffs at a significantly lower average rate than its bound agricultural lines (35 percent versus 97 percent), authorities still retain considerable room for maneuver between bound and applied tariffs, even for manufactured products.

Table 4.8 Pakistan's tariffs on imports of other manufactures, selected chapters, 2005–06 (millions of US dollars)

Product description	Number of tariff lines	Number of peaks[a]	Simple average tariff rate	US exports to Pakistan (millions of dollars)	Weighted average tariff on imports from United States[b]
Chemicals and plastics (HS sections VI–VII)	1,356	349	10.4	293	6.7
Fertilizers (ch. 31)	26	0	5.0	100	5.0
Organic chemicals (ch. 29)	477	28	6.7	94	6.2
Miscellaneous chemical products (ch. 38)	96	37	13.4	37	14.5
Plastics and articles thereof (ch. 39)	154	101	16.5	31	5.9
Base metals and articles thereof (HS section XV)	714	308	14.3	56	16.9
Iron and steel (ch. 72)	241	78	12.6	34	16.6
Articles of iron or steel (ch. 73)	144	105	19.4	14	20.8
Machinery and equipment (HS section XVI)	1,054	331	12.0	360	11.1
Machinery and mechanical appliances (ch. 84)	680	142	10.1	212	10.7
Electrical machinery and equipment (ch. 85)	374	189	15.4	148	11.8
Transport equipment (HS section XVII)	162	100	33.0	426	5.9
Aircraft and spacecraft (ch. 88)	14	0	5.0	414	5.0
Other transport equipment (ch. 86–87; 89)	148	100	35.8	12	57.8
All remaining "other manufactures"	1,114	577	15.1	77	7.1
Photographic and medical precision instruments (ch. 90)	201	21	7.6	39	6.6
Pulp and paper; articles thereof (ch. 47–48)	157	120	18.8	19	8.7
Total	4,400	1,665	13.4	1,215	8.2

a. Peaks are defined as tariffs equal to or above 20 percent.
b. Analysis performed considering only tariff lines at the 6-digit level for which Pakistan's imports from the United States exceeded $1 million in 2004 (roughly 87 percent of actual trade in this category considered).

Note: "Other manufactures" are defined as all tariff lines in HS chapters 25–97, except chapters 50–63 and 94 (textiles and clothing).

Source: UN Statistics Division (2005).

Tariff peaks are the norm rather than the exception in Pakistan's tariff schedule. Almost 40 percent of all tariff lines on other manufactures are subject to tariffs equal to or above 20 percent (table 4.8).[20] High average tariffs are applied to chapters such as automobiles, trucks, and motorcycles (HS 87);[21] articles of iron and steel (HS 73); tools, implements, cutlery, and miscellaneous articles of base metal (HS 82–83); pulp and paper (HS 47–48); plastics (HS 39); and electrical machinery and equipment (HS 85). In these chapters, the incidence of tariff peaks exceeds 60 percent of tariff lines (table 4.8). Table 4.8 shows that tariff peaks are also important in products such as miscellaneous chemicals (HS 38) as well as mechanical machinery and equipment (HS 84).

As shown in table 4.7, 5 of the top 30 US exports of other manufactures to Pakistan could be subject to tariff peaks.[22] However, some of the top 30 benefit from exceptions and others simply face lower tariffs. Table 4.8 shows that existing US exports of other manufactures pay less than Pakistan's average tariffs on manufactured imports in all product categories except base metals and vehicles, where trade is small.[23] Table 4.7 confirms these results.[24] Nevertheless, tariff elimination under a US-Pakistan FTA is clearly important. For one thing, Pakistan still applies very high tariffs on nearly all HS chapters of interest to US manufacturers (with the exception of fertilizers and aircraft), and a substantial number of tariff peaks probably stifle trade. Moreover, small and medium-sized US firms may be adversely affected by the influence of lobbies in the design of Pakistan's tariff schedule and duty exceptions.[25]

Domestic Pakistani firms further benefit from tariff escalation and targeted duty exemption on raw materials and machinery not produced in the

20. Tariff peaks are defined as tariffs above 15 percent. Eight tariff lines in the other manufactures category are subject to specific tariffs. We classified these lines as peaks although no ad valorem equivalents were available. These specific tariffs are applied on petroleum and oils other than crude (HS 2710), gold and silver (HS 7106–08), and one chemical product (HS 2815.12).

21. The worst peaks in chapters 84 and 85 correspond to parts for motor vehicles covered in chapter 87. Chapter 84 contains more than 100 tariff lines with peaks.

22. Since trade flows in the UN Comtrade database are recorded at the 6-digit level, this calculation is approximate.

23. Only those items for which trade flows exceeded $1 million were considered; this covers 87 percent of US exports by value.

24. Table 4.7 also shows that some US exports of base metals qualify for duty-free access under statutory regulatory orders (SROs).

25. For example, SRO 559 grants customs duty and sales tax exemptions on specified goods if imported by British Airways. According to the National Association of Manufacturers, 95 percent of US exporters of manufactured goods are small companies and account for 30 percent of total US manufactured exports. These firms often have a hard time working the political system of foreign markets.

country (WTO 2002a). Despite recent tariff reductions, the highest tariffs are still assessed on fully processed products rather than products in the elementary stages of production. Tariff escalation is an important factor for imports of wood and furniture, leather, rubbers and plastics, paper and printed books, chemicals, iron and steel, other metals, and nonmetallic mineral products. The Pakistan Customs Tariff 2005–06 shows large variations between HS chapters 28–29 and chapters 33, 35, and 38 (chemicals); chapter 72 and chapter 73 (iron and steel); HS 4000–03 and HS 4004–17 (rubber); HS 3901–03 and HS 3904–26 (plastics). Within each family of products, items in a raw state or elementary form often are subject to 5 percent tariffs, while those in a more elaborated form are mostly subject to tariffs above 10 percent.

Pakistan's statutory regulatory orders (SROs) are used to either reduce duties (in order to provide relief to certain sectors) or to enhance them. SROs 565 and 567 of June 2005 listed dozens of products that benefit from duty-free or reduced duty access if imported as inputs for domestic manufacturing,[26] SRO 453 grants exemptions specifically targeted for the motor vehicle industry, and SRO 575 lists targeted customs duty and sales tax exemptions. The impact of these programs on the top 30 US exports of other manufactures to Pakistan is quite important. Table 4.7 shows that 70 percent of current US exports by value are subject to an average tariff of only 3.5 percent (taking into account the SRO exemptions). Note, however, that eligibility conditions sometimes impose additional costs. For example, imports of parts for vehicles and tractors not manufactured domestically qualify for duty-free treatment if they meet the following criteria: Imports are in completely knocked down condition (CKD) and used for further transformation in Pakistan; manufacturing firms conform to specified input/output ratios; parts are consumed within one year; and the manufacturer notifies the use of imported items to Pakistan Customs in writing and within a specified period.

In light of Pakistan's overall tariff policy, the country's bilateral FTAs will grant substantial margins of preferential access. Pakistan's negotiations with China, Malaysia, Singapore, and other regional partners could be a matter of concern for US manufacturers, given the rapid penetration of Chinese and ASEAN other manufactured products into the Pakistani market even without the benefit of preferential access (table 4.2).

Pakistan's early harvest agreement with China will provide, as of January 2007, certain Chinese manufacturers with an advantage over foreign competitors, including some US firms.[27] The advantage will be important

26. Exemptions are often granted as long as the product is not produced domestically.

27. We report the results of the early harvest agreement with China because that agreement represents Pakistan's most extensive commitments to date with a major trading nation. Pakistan's concessions under its early harvest agreement with Malaysia were much more limited and focused on agricultural, textile, office, and other machinery (HS 84), and to a lesser degree on chemicals and rubbers, wood products, and electrical equipment.

for organic chemicals (HS 29) and certain machinery and mechanical equipment (HS 84), two leading import categories of Pakistan and important areas of Chinese interest (table 4.3). The agreement contains important concessions on organic chemicals, which are also of interest to some US firms as they constitute the second most important category of US chemical exports to Pakistan. The principal US exports of organic chemicals (for the most part inputs for production of textiles and clothing or paints and varnishes) benefit from duty-free access (table 4.7). While the early harvest agreement leaves most peaks on organic chemicals untouched—28 according to table 4.8—it grants duty-free access, effective January 2007, on nearly 118 tariff lines (out of 477 total tariff lines in the chapter in Pakistan's tariff schedule). Pakistan currently applies 5 percent tariffs to about 90 percent of these lines.[28]

Pakistan also will grant China duty-free access—again, for the most part effective in January 2007—on 40 percent of all tariff lines in HS chapter 84 on machinery and mechanical equipment.[29] Pakistan's concessions on machinery correspond to tariff lines subject to low tariffs (5 percent); however, a few lines might correspond to top US exports.[30] Only 17 tariff lines granted in HS chapter 84 are subject to tariffs above 10 percent, and most of them correspond to textile machinery. The share of textile machinery in Pakistani imports under HS chapter 84 is large (36 percent), but this product category is not among the main areas of interest to US exporters.[31]

Additionally, some other products (e.g., selected items in HS 85 and 90) will receive margins of preference ranging between 5 and 20 percent under applied MFN rates. Pakistan's extension of preferential access to Chinese exporters does not cover the peak tariff lines, and in some instances involves tariff lines that already receive MFN duty-free access through SROs. In other cases, preferences apply to tariff lines where Chinese exports are currently small. It is also important to note that the Early Harvest Agreement is not a final arrangement but rather a steppingstone to a full FTA; hence, the margins of preference are likely to expand with the conclusion of a Pakistan-China FTA.

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28. The agreement eliminates duties on only two peak tariff lines (these will be phased out by January 2008). Additionally, under the early harvest agreement, some 20 tariff lines corresponding to organic chemicals will be granted margins of preference ranging from 5 to 15 percent by comparison with MFN rates.

29. Some 40 extra tariff lines in chapter 84 will qualify for margins of preference ranging from 5 to 20 percent by comparison with MFN rates.

30. One example is parts of turbo propellers or gas turbines.

31. Under its Textile Vision 2005, the Government of Pakistan pledged to grant duty-free treatment for textile machinery not produced domestically, provided that it is imported as an input for textile exports (Government of Pakistan 2005c).

Nontariff Barriers

Pakistan applies various import charges and taxes, such as landing, clearing, forwarding, and bank charges. According to the US Commercial Service (2001), these charges may increase the import price by 7 percent over the c.i.f price. Advance payment of sales and income taxes puts an additional differential burden on imported products, since many domestic producers evade taxes. Pakistani sales tax exemption programs create further advantages for domestic producers; for example, exemptions are not available to pharmaceuticals subject to tariffs above 10 percent (e.g., eyedrops, first-aid boxes and kits, and bandages and adhesives for medical use).[32]

Certain commodities can be imported into Pakistan only by approved entities that hold a valid license from the concerned government agency. Possibly of US interest will be licenses that affect the pharmaceutical industry (e.g., on nonbanned narcotic drugs and psychotropic substances, blood, disinfectants, and certain raw materials); transmission apparatus (with the exception of fax machines and mobile phones); certain chemicals used as inputs or ingredients for pesticides, insecticides, and fungicides; and licenses for CKD vehicles and tractors issued to support "progressive local manufacturing" (Government of Pakistan 2005b). Apart from reviewing some of these licensing systems, a US-Pakistan FTA could address other procedural impositions such as registration requirements for the import of drugs and medicines. According to the US Trade Representative (USTR 2005a), delays in the registration process—often one to two years—exacerbate patent theft.[33] Exports of fertilizers, certain chemicals, and some metals are restricted through special regulations, which should be reviewed as they may retard promising exports.

Pakistan enforces a few import prohibitions that are for the most part defensible on the basis of Articles XX (general exceptions) and XXI (security exceptions) of GATT 1994, although some are in direct conflict with the basic principles of the multilateral trading system. The government allows imports only of specific products from India (the "positive list" approach) and maintains a full ban of imports from Israel.[34] Possi-

32. Most pharmaceuticals, however, are subject to tariffs not higher than 10 percent.

33. Patent theft and other intellectual property violations are also a matter of urgent concern to US pharmaceutical producers. The USTR states that "Pakistan fails to protect against unfair commercial use of test or other data. In addition, the government has authorized the sale of pharmaceuticals without requiring checks confirming that another firm does not hold an active patent on the compound. Although courts have issued injunction orders against firms licensed by the Ministry of Health that sell drugs in violation of patent holder rights, such orders are not consistently enforced" (USTR 2005a, 5).

34. In both cases, the prohibitions apply to goods from India or Israel as well as to goods of Indian or Israeli origin.

bly more relevant for US firms, Pakistan prohibits, with a clear protectionist intent, imports of used or secondhand commodities as well as factory rejects and job lots or stock lots.[35] Products targeted include consumer machinery (boilers, compressors, air conditioners, refrigerators, hand tools, household machinery, parts); industrial machinery (for sugar, brewery, cement, oil refinery, thermal power, and other plants); electrical machinery (HS chapter 85); auto and auto parts including retreaded and used pneumatic tires (HS 40, 84, 85, 87, and 90); and apparatus and appliances (HS 90).[36] Although there are many exceptions (e.g., relocation schemes; oil, mining, and construction machinery; and other programs), the prohibitions coincide with many current or potential US exports. In previous FTAs, some US firms have expressed concern about similar barriers.[37]

To date, Pakistan has not applied safeguard measures on manufactured imports. In 2005 the country's National Tariff Commission conducted an investigation concerning imports of footwear from all sources (principally from China), but the investigation was concluded with no safeguard measures imposed (WTO 2005f). Pakistan does, however, apply antidumping measures on five products: urea from China, sorbitol from France and Indonesia, and glacial acid from Taiwan (chemicals); PVC resin from Iran and Korea (plastics); and tin plate from South Africa (metals). The National Tariff Commission is conducting an investigation against alleged dumping of tin plate from the United States and other sources. According to specialized news reports, Pakistan's Central Board of Revenue is considering launching an antidumping investigation on imports of office furniture and toys from East Asian countries (World Trade Review 2005). Taken together, these events show a tendency in Pakistan toward greater reliance on antidumping measures.

35. Pakistan's Customs General Order No. 12 (2002) defines a job lot as a collection of odds and ends (different specifications, color schemes, etc.) for sale as one lot. After selling a portion of the goods to a few buyers, the supplier is left with an assortment of goods with slight differences, and these remainders are generally sold as a job lot at a low price. The same source defines a stock lot as "goods which are kept in stock unsold because of change in tastes." Again, such goods can be sold at a low price.

36. Pakistan's import prohibitions cover more products than those listed above. For a full treatment, see the *2002 WTO Trade Policy Review for Pakistan* (WTO 2002a) and the Import Policy Order 2005–06 by the Government of Pakistan (available at www.cbr.gov.pk).

37. Barriers to the importation of used goods were issues of interest in the US-Chile and the US-Morocco FTAs. The US-Chile FTA eliminated Chile's 50 percent surcharge on used goods (Vargo 2003). Under the US-Morocco FTA, Morocco committed to phase out its tariffs on used goods including tires, machinery, and vehicles (USTR 2004d). In all recent FTAs, the United States has insisted on language in the rules of origin so that remanufactured products are considered to originate in an FTA partner.

United States

In 2004 nearly 25 percent of Pakistan's exports of other manufactures qualified for GSP benefits. While Pakistan's exports under the US GSP program were small, the affected products represented 40 to 55 percent of the country's exports to the world. Table 4.5 disaggregates Pakistan's exports under GSP by HS chapter of relevance and shows that GSP access has benefited nontraditional Pakistani exports such as jewelry, cutlery, and articles of stone or plaster. Additionally, the United States applies zero MFN rates on medical devices (HS 9018.90) and football and soccer balls (HS 9506.62.40), two important export categories for Pakistan (table 4.9).

However, Pakistan's leading exports of other manufactures—namely leather gloves and jackets—have not qualified for GSP benefits and are still subject to relatively high duties, some of them above 10 percent (table 4.9).[38] Pakistan's exports of these products to the European Union expanded after the country qualified for duty-free access (table 4.6); thus it is possible that a US-Pakistan FTA would render Pakistan's leather exports (including leather footwear) more competitive vis-à-vis China and other suppliers. Addressing these market access concerns should be feasible: In recent years US leather manufacturers have moved away from leather clothing to specialize in other items.[39] (While some US tariffs on rubber footwear are exceptionally high—almost 50 percent—these ultrasensitive products are not exported by Pakistan.)[40]

According to WTO statistics, the United States does not currently apply antidumping duties on manufactured imports from Pakistan. However, other countries have voiced concern over US licensing systems, invoice requirements, customs fees, and other nontariff barriers. Foreign governments have also objected to higher transaction costs and delays associated with the Homeland Security Act of 2002. A US-Pakistan FTA should facilitate trade in ways that would ease some of these concerns. For example, the United States and Pakistan should extend the Container Security Initiative (CSI) to the port of Karachi.[41] In addition, the United

38. High US tariffs on existing Pakistani exports to the United States are mostly concentrated in HS 4203 (leather clothing such as jackets and gloves). Moderate tariffs on leather footwear could be a relevant barrier for Pakistani exporters.

39. The Industry Sector Advisory Committee for Footwear, Leather, and Leather Products states that most leather tanneries in the United States have "survived by specializing in high-end automotive and furniture upholstery leather." By contrast, Pakistan's leather exports are concentrated in gloves and jackets.

40. Pakistan is not among the top 20 sources of US imports of rubber footwear. Pakistan is also a minor player in travel goods. US producers of nonrubber footwear have embraced free trade.

41. Currently, Colombo (Sri Lanka) is the only South Asian operational port in the CSI system, but ports in other developing countries are participating in the CSI, such as Buenos Aires, Laem Chabang, Port Klang, and Santos. The minimum standards for CSI participation are explained on the US Customs Web site, www.customs.gov.

Table 4.9 Pakistan's top 30 exports of other manufactures to the United States, 2004 (millions of US dollars)

HS 6-digit category	Description	Import value[a]	Share	MFN tariff (percent)	GSP?
4203.10.40	Anoraks, coats, and jackets of leather or composition leather	47	0.22	6.0	No
9018.90.80	Medical or surgical instruments, nesoi	27	0.13	Free	n.a.
9506.62.40	Soccer balls	16	0.08	Free	n.a.
7113.19.50	Gold or platinum jewelry, nesoi	11	0.05	5.0	Yes
4203.29.30	Gloves and mittens of leather,nesoi	10	0.05	14.0	No
4203.21.80	Gloves specially designed for use in sports, nesoi	8	0.04	4.9	No
8214.20.30	Manicure or pedicure instruments	7	0.03	4.0	Yes
9307.00.00	Swords, cutlasses, bayonets, lances, and similar arms	5	0.02	2.7	Yes
4202.92.15	Travel, sports, and similar bags, outer surface of cotton	4	0.02	6.3	No
6802.91.15	Marble, other than slabs	4	0.02	4.9	Yes
8213.00.90	Other scissors, tailors, and similar shears	3	0.02	3.0¢ each	No
6802.92.00	Other calcareous stone, nesoi	3	0.01	4.9	Yes
8203.20.20	Tweezers base metal	3	0.01	4.0	Yes
8541.40.20	Photosensitive semiconductor devices, light-emitting diodes	3	0.01	Free	n.a.
9018.90.30	Anesthetic instruments and parts and accessories	3	0.01	Free	n.a.
4203.29.18	Horse or cowhide leather gloves, not wholly of leather, nesoi	2	0.01	14.0	No
9706.00.00	Antiques of age exceeding 100 years, nesoi	2	0.01	Free	n.a.
8203.20.60	Pliers except slip joint, base metal	2	0.01	12¢ per dozen + 5.5	Yes
4203.29.08	Horse or cowhide leather gloves, wholly of leather, nesoi	2	0.01	14.0	No
9018.49.80	Dental hand instruments and parts and accessories	1	0.01	Free	n.a.
8211.92.90	Sheath-type knives with fixed blades	1	0.01	0.4¢ each + 6.1	
4203.21.20	Batting gloves	1	0.01	3.0	No
7103.10.20	Rubies, sapphires, emeralds, and rock crystals	1	0.01	Free	n.a.

(table continues next page)

Table 4.9 Pakistan's top 30 exports of other manufactures to the United States, 2004 (millions of US dollars) *(continued)*

HS 6-digit category	Description	Import value[a]	Share	MFN tariff (percent)	GSP?
6802.91.05	Marble slabs	1	0.01	2.5	Yes
9603.90.80	Brooms, brushes, squeegees, etc., nesoi	1	0.01	2.8	Yes
4203.30.00	Belts and bandoliers with or without buckles	1	0.01	2.7	Yes
9506.99.20	Football, soccer, and polo equipment, except balls	1	0.01	Free	n.a.
4203.29.40	Gloves and mittens, of leather, nesoi	1	0.01	12.6	No
9506.99.60	Equipment for gymnastics, outdoor games, other sports	1	0.01	4.0	Yes
7113.19.21	Gold rope necklaces and neck chains	1	0	5.0	Yes
	Total	215	1.00	3.2[a]	

GSP = generalized system of preferences
HS = Harmonized Schedule
n.a. = not applicable
nesoi = not elsewhere specified or included

a. Value calculated as ratio of collected duties to value of imports; hence it includes preferences under the GSP.

Source: USITC (2005a).

States and Pakistan might improve the tracking systems designed to combat illegal transshipments.

US imports of other manufactures from Pakistan are small and declining, despite an important degree of duty-free access. With the notable exception of leather items and footwear, US tariffs on Pakistani exports are low. While Pakistan will want to secure an equal standing with other FTA partners, and obtain margins of preference with respect to Chinese and other competitive producers, it is foreseeable that other manufactures will not be the principal concern of Pakistan in the negotiation of an FTA, nor will the category be particularly sensitive for the United States.

Recommendations

US negotiations with other developing countries have aimed to provide access based on reciprocity while recognizing development concerns (Allgeier 2004). The principal preoccupation for US negotiators in the other manufactures sector has been to obtain rapid and binding commitment to eliminate *all* tariffs. Previous US agreements resulted in immediate duty-free access on the order of 80 to 95 percent of existing two-way trade.

In light of the abundance of tariff peaks in Pakistan's tariff schedule, not all products that Pakistan regards as sensitive can be shielded through long phaseout periods. In the past, the United States has accepted long phaseouts for truly sensitive products when confronted with urgent requests from an FTA partner. The US-Morocco FTA is the prime example: In the agreement as signed, Morocco will liberalize less than two-thirds of its tariff lines on other manufactures within five years, while the remaining tariff lines in the category were allowed nine-year phaseout periods. The United States, on the other hand, offered Morocco immediate duty-free access, except in a few tariff lines.[42]

The CGE model predicts that a complete elimination of tariffs in a US-Pakistan FTA would lead to the largest gains in US exports (in both relative and absolute terms) in sensitive product categories, including chemicals and plastics, metals and their products, machinery and electrical equipment, and motor vehicles. With these considerations in mind, we offer the following recommendations:

- A US-Pakistan FTA should achieve reciprocal duty-free entry for all items in the other manufactures category after a 10-year transition period.
- Both parties should agree to an ambitious target of immediate liberalization of 95 percent of existing two-way trade (by value, not by tariff lines) in other manufactured products. This will entail a larger effort in Pakistan, but will balance US concessions on textiles and clothing, while maintaining room for longer phaseouts for sensitive items.[43]

United States

- With a few exceptions, the United States should grant immediate duty-free access to all existing imports of other manufactures from Pakistan. They present no real threat to US industry, and so the United States should not aim for sector reciprocity in this category. Leather goods should obtain immediate duty-free entry, provided that Pakistan eliminates its export taxes on hides. Tariffs on sensitive US

42. The United States retained phaseouts for a limited number of tariff lines in organic chemicals, plastics, paper, trunks and travel goods, headwear and footwear, and ceramics.

43. Pakistan could go a long way toward liberalizing bilateral trade by eliminating tariffs in the 5 to 10 percent range (e.g., fertilizer, plastics, medical and precision instruments, and most pharmaceuticals). Achieving that target will require eliminating a few tariffs above the 10 percent level.

products (i.e., travel goods, rubber footwear, and ceramics) should be phased out over 5 to 10 years. Pakistan could acquiesce to these terms, as its exports in these categories are for the most part negligible.

Pakistan

- Pakistan should grant immediate duty-free access on manufactures that are not produced domestically or that currently enjoy duty-free treatment not reflected on the tariff schedule (e.g., aircraft and parts thereof). Pakistan should also grant immediate equal footing for US firms in areas that compete directly with firms from third countries that already benefit from preferential access to Pakistan (e.g., in organic chemicals and some types of machinery and mechanical equipment).
- Pakistan's most sensitive items (i.e., construction materials, plastics and tires, articles and tools of base metal, transport equipment in CKD condition, bicycles, and soda in aqueous solution) should qualify for a 10-year phaseout period. However, a US-Pakistan FTA should also immediately relax licensing requirements, particularly those mandating progressive local manufacturing, and allow the import of used goods in the transport equipment sector.
- Domestically produced machinery and electrical equipment (some trade on HS 84 and nearly all trade on HS 85 excluding auto parts) will be a difficult area of negotiation. US interest is strong, and Pakistani tariff peaks and nontariff barriers abound. Pakistan should immediately eliminate nontariff barriers in these sectors and facilitate the import of new and used goods and parts. Tariffs on sensitive items should qualify for 10-year phaseouts.
- A more vigorous approach should be tried for the remaining peaks in chemicals (e.g., tanning products, soaps and cosmetics, pharmaceuticals, miscellaneous chemicals), rubbers, and pulp and paper. The phaseout periods should generally be shorter than 10 years. Pakistani licensing and registration requirements for chemicals and pharmaceuticals should likewise be reviewed and streamlined.